Senior loan officer opinion survey

on bank lending practices and credit conditions

3rd quarter 2005

Warsaw, July 2005

Summary of the survey results

- **Lending policy**: in the second quarter of 2005 banks eased their loan terms and conditions as well as credit standards for small- and medium-sized enterprises (SMEs) and households. The trend to ease the lending policy in the segments of short-term loans for SMEs and consumer loans was the strongest since the survey had been first conducted.
- **Reasons for changes in lending policy**: The assessment of risk related to the economic developments anticipated by the banks is optimistic. This factor is the most important reason underlying the eased lending policy in the enterprise sector and one of the major reasons in the case of the household sector.
- **Loan terms and conditions:** There is a strong price competition in the housing loans segment. The lending margin was one of the most often eased standards in the segments of consumer loans and corporate loans.
- **Demand for corporate loans**: banks recorded an increase in demand for loans in the corporate sector. The trend of growth in demand, except for long-term loans for SMEs, was the strongest since the second quarter of 2004.
- **Main reasons for the change in demand for corporate loans**: banks reported again that the demand rose chiefly due to the increased need for investment and current asset financing. According to the banks, the present increase in demand is also caused by the eased lending policy.
- **Demand for household loans**: banks recorded an increase in demand for household loans. In the housing loans segment the increase was the strongest since the survey had been first conducted.
- **Reasons for the change in demand for household loans**: Banks indicate more and more often that demand for household loans is growing due to the eased lending policy. In the segment of consumer loans this is at present the major reason for the increase in demand.
- **Expected changes in lending policy**: the majority of banks do not intend to change their lending policy in the third quarter of 2005, although a tendency prevails among the banks changing their credit standards to ease them off, especially as regards the SME sector.

Synthetic results of the survey

The survey was conducted at the turn of June and July 2005 among 24 banks, whose total share of claims on enterprises and households amounts to 79.7% of the total banking sector portfolio.

The aggregation of the data behind the results consisted in the calculation of the weighted percentages of responses and the net percentage, i.e. the difference between the percentages corresponding to opposite trends. In line with the adopted methodology, words describing quantities (majority, half, meaningful, significant, percentage of banks, etc.) refer to weighted percentages and not to the number of banks. Thus the phrase "the majority of banks" should be construed as "the asset-weighted majority of banks”. Details concerning the calculation methodology are presented in Appendix 1.

The following section presents trends regarding the banks' lending policy and changes in demand in the second quarter of 2005 as well as the banks' forecasts concerning the third quarter of 2005.

Corporates

In the second quarter of 2005 the banks did not change their credit standards for large enterprises, but they eased their lending policy towards SMEs. The tendency to ease the lending policy in the SME sector was definitely stronger in the short-term loans segment — over 60% of asset-weighted banks eased their credit standards for enterprises (cf. Figure 1). Such a strong trend to ease the lending policy in the enterprise sector has not been observed since the survey had been first conducted. In the case of long-term loans the net percentage is at the same level as in the first quarter of 2005.

The banks anticipate continuation of the easing of their credit standards as well as terms and conditions of short-term loans for SMEs in the third quarter of 2005. They also expect a slight trend to ease the lending policy in all other segments of corporate loans. A higher percentage of banks anticipate easing their credit standards and terms and conditions of loans to the SME sector.

The banks that changed their lending policies most often increased the maximum amount of loan, lowered the lending margin and the security requirements and prolonged the maximum lending period (cf. Figure 2). An explicit tendency to increase the maximum amount of loan occurred for the first time since the survey had been first conducted. The percentage of banks that eased the above-mentioned standards was also the highest since the survey had been first conducted.

Figure 1

Corporate credit standards

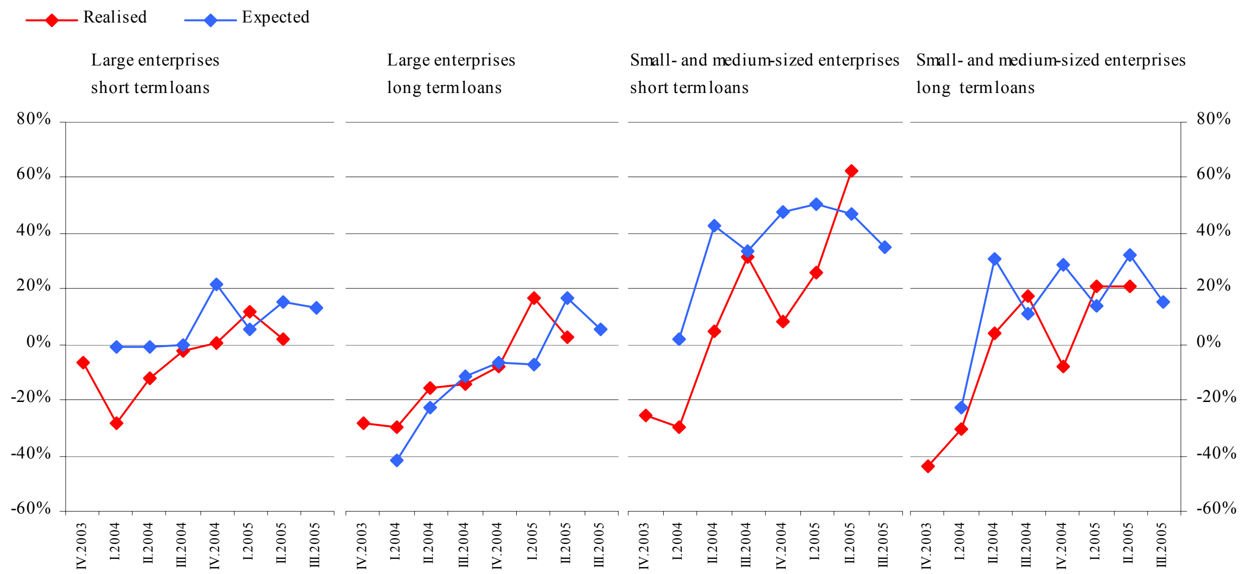
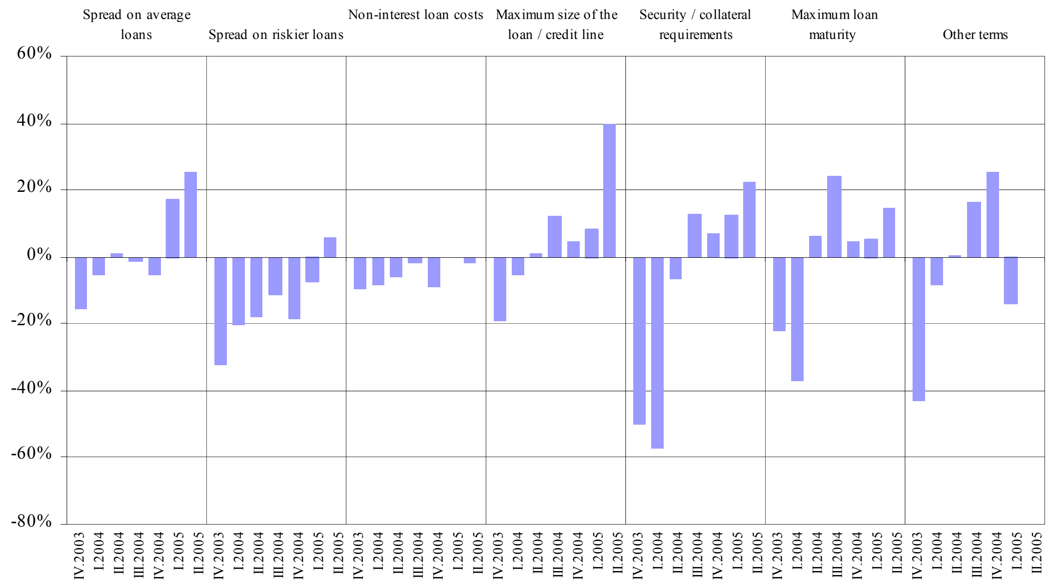


Figure 2

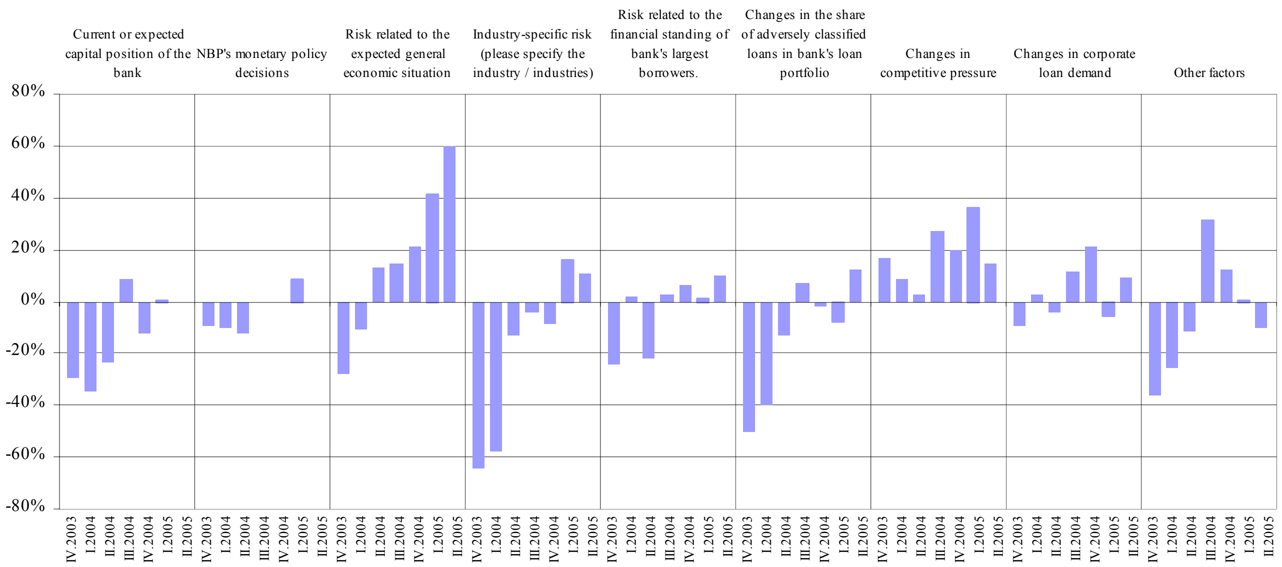
Terms on corporate loans



Similarly as in the two previous quarters, the most important reason for easing the banks' lending policy was the reduced risk related to the anticipated economic developments. In the second quarter of 2005, the influence of this factor on easing the lending policy was the strongest during the whole period of conducting the survey. Almost 60% of the banks (asset-weighted) that eased their credit standards recognized the improvement in economic situation as an important reason for easing the credit standards and terms and conditions of granting loans. Among other reasons for easing their lending policy, the banks mentioned a higher competitive pressure, in particular from other banks, a decrease in irregular loans in their loan portfolios and a decrease in the overall industry risk and in the risk related to the situation of the largest borrowers (cf. Figure 3).

Figure 3

Factors influencing changes in lending policies

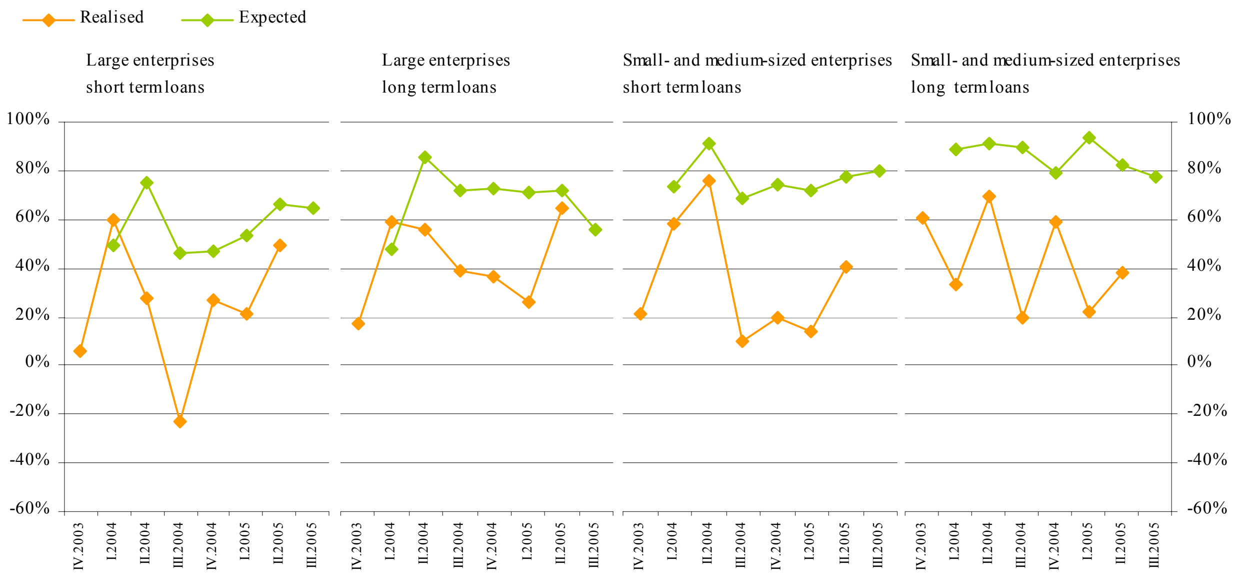


In the second quarter of 2005, about half of the banks recorded an increase in demand for corporate loans. Its net percentage in the SME sector was lower than in the large enterprises sector, as some banks also declared a slight decrease in the demand for loans from SMEs. The upward trend in demand, except for long-term loans for SMEs, was the strongest since the second quarter of 2004. In all categories of corporate loans, the level of net percentage increased in comparison to the previous quarter (cf. Figure 4).

The banks anticipate that in the third quarter of 2005 the demand for corporate loans will continue to increase in a degree comparable to that in the current quarter. The banks also anticipate a stronger increase in the demand in the SME sector (cf. Figure 4).

Figure 4

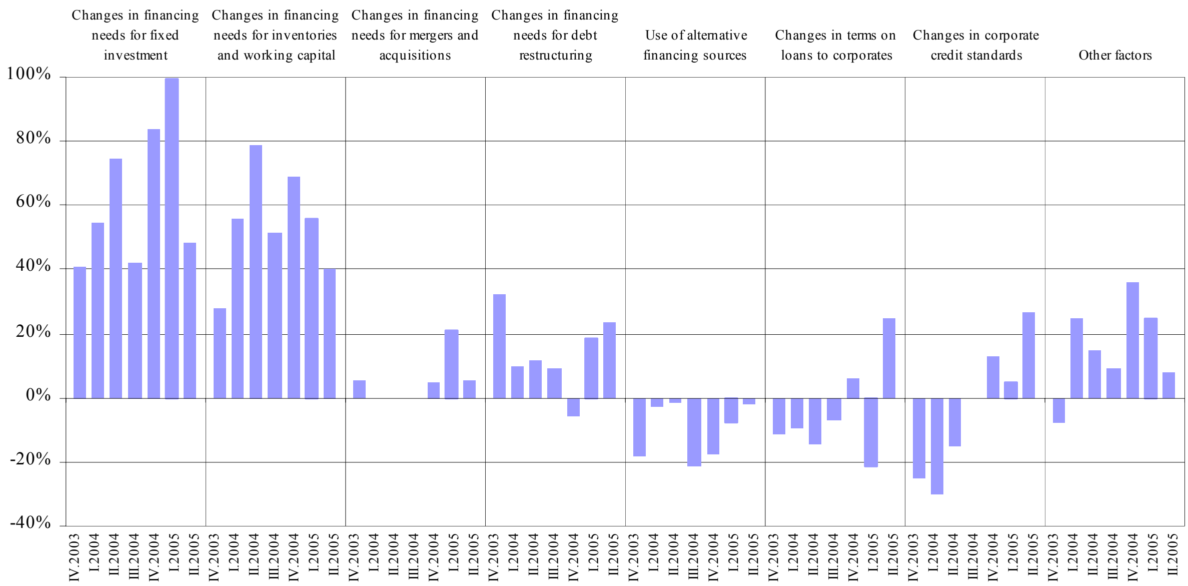
Corporate loan demand



Similarly to the previous quarter, the increase in demand was most strongly affected by an increase in investment finance requirements and in inventory and current assets finance requirements. The importance of both factors was lower than in the previous quarter, though they still remain the most important as regards the growth in demand for loans (cf. Figure 5). Other significant factors reported by the banks included easing the credit standards and loan terms and conditions. An explicit influence of both factors on the growth in demand for corporate loans occurred for the first time since the survey had been first conducted. As follows from the answers provided by the banks, the observed increase in demand results not only from exogenous factors, but is also related — to some extent — to the easing of lending policy by the banks.

Figure 5

Factors influencing changes in corporate loan demand



Households

In the second quarter of 2005, the majority of banks (77.7% of asset-weighted banks) did not change their credit standards as regards housing loans to households. Other banks eased their lending policy in the housing loans segment. In the scale of the whole sector, the lending policy in the housing loans segment was eased in a degree comparable to that in the previous three quarters (cf. Figure 6).

The banks anticipate that in the third quarter of 2005 the lending policy in the segment of housing loans will be eased to a degree comparable to that in the second quarter of 2005 (cf. Figure 6).

The anticipated situation on the housing market exerted the strongest impact on easing the terms and conditions of housing loans. Increased competitive pressure from other banks and non-banking financial institutions still exerted a strong impact on easing the lending policy in the housing loans segment. The influence of changes in the demand for housing loans on shaping of banks' lending policy was also significant (cf. Figure 6).

The banks that changed their lending policy in the housing loans segment most often reduced their lending margin. Among other terms and conditions that were much less frequently changed, the banks mentioned a decrease in the non-interest cost of loans and a decrease in the lending margin for higher risk loans. Some banks also changed loan terms and conditions other than those listed in the survey. Some banks increased their debt ratios or changed the method of calculating creditworthiness. In the second quarter of 2005, decreasing of the lending margin was a dominant element of changes in the lending policy and the most significant one since the survey had been first conducted (cf. Figure 7).

Figure 6

Lending policy and factors influencing its changes – housing loans

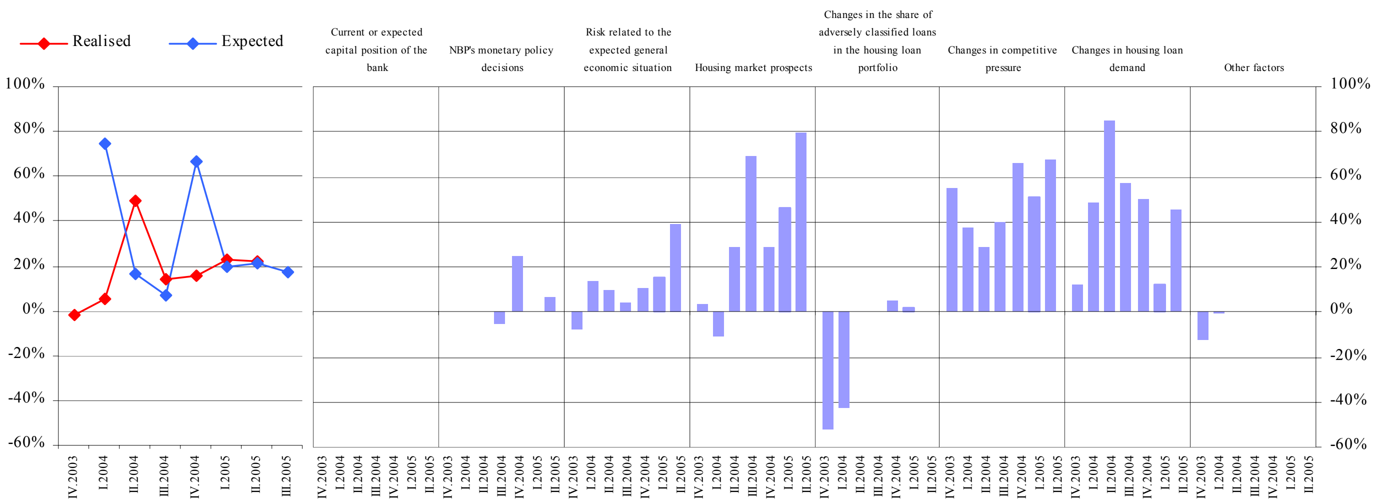
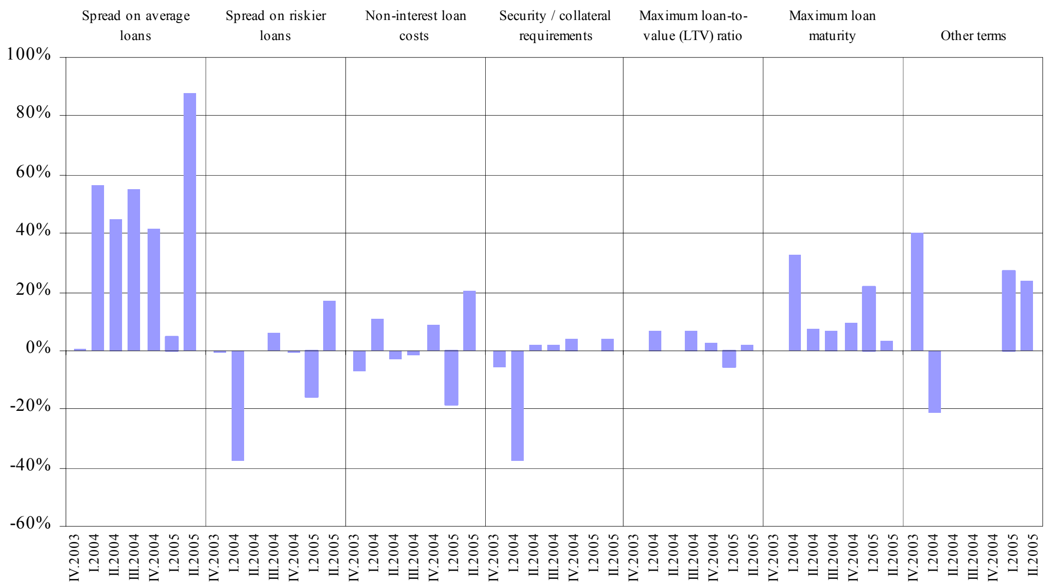


Figure 7

Terms on housing loans



The majority of banks eased their lending policy in the consumer loans segment (56.3% of asset-weighted banks). The remaining banks did not change their terms and conditions or credit standards of consumer loans. Although the trend to ease the consumer loan terms and conditions and credit standards was the strongest since the survey had been first conducted, the banks do not anticipate any significant changes in their lending policy in the third quarter of 2005 (cf. Figure 8). It should be stressed, however, that in the previous quarter the banks did not anticipate any changes in their lending policy either, and in spite of that a significant percentage of banks eased the terms and conditions and credit standards of consumer loans.

Increased competitive pressure, in particular within the banking sector, is still the most often reported reason for changes in the lending policy. In all the surveys conducted so far it has been the most significant factor, easing the credit standards and terms and conditions of consumer loans. In the second quarter of 2005, the significance of other factors that had an impact on easing the lending policy also increased: the share of irregular loans in the consumer loan portfolio decreased, the risk related to the expected economic developments decreased and the current and expected standing of the banks in terms of their capital resources improved (cf. Figure 8).

The banks that eased their credit standards for consumer loans most often reduced their loan security requirements, increased the maximum loan maturity and decreased their lending margin (cf. Figure 9). In comparison to the previous quarter, the influence of these factors on easing the lending policy grew, in particular of lending margin decrease.

Figure 8

Lending policy and factors influencing its changes – consumer loans

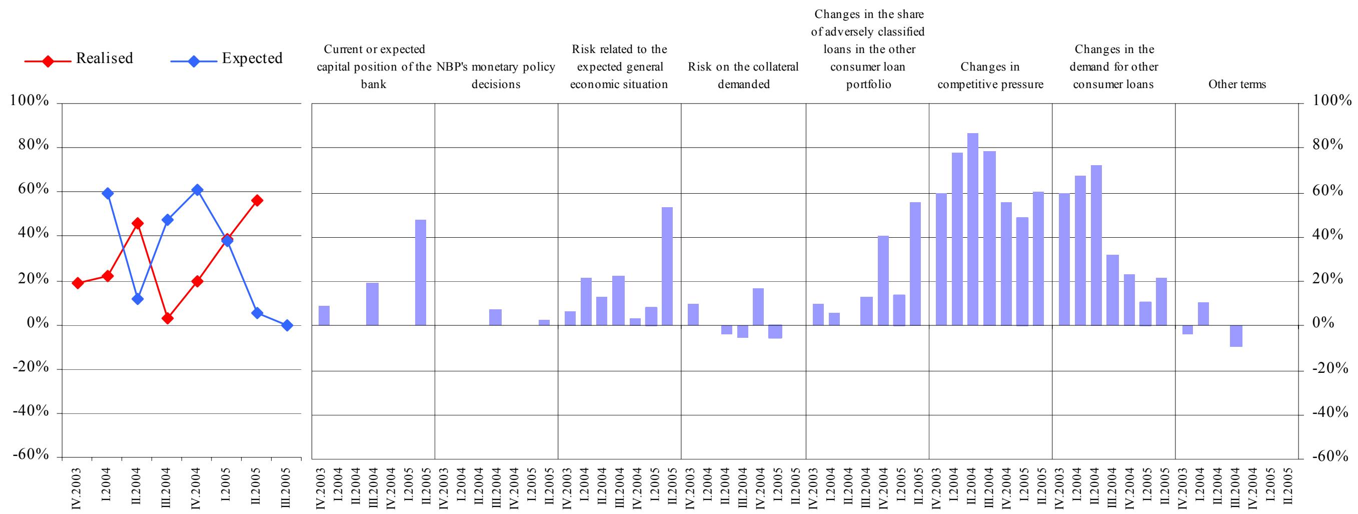
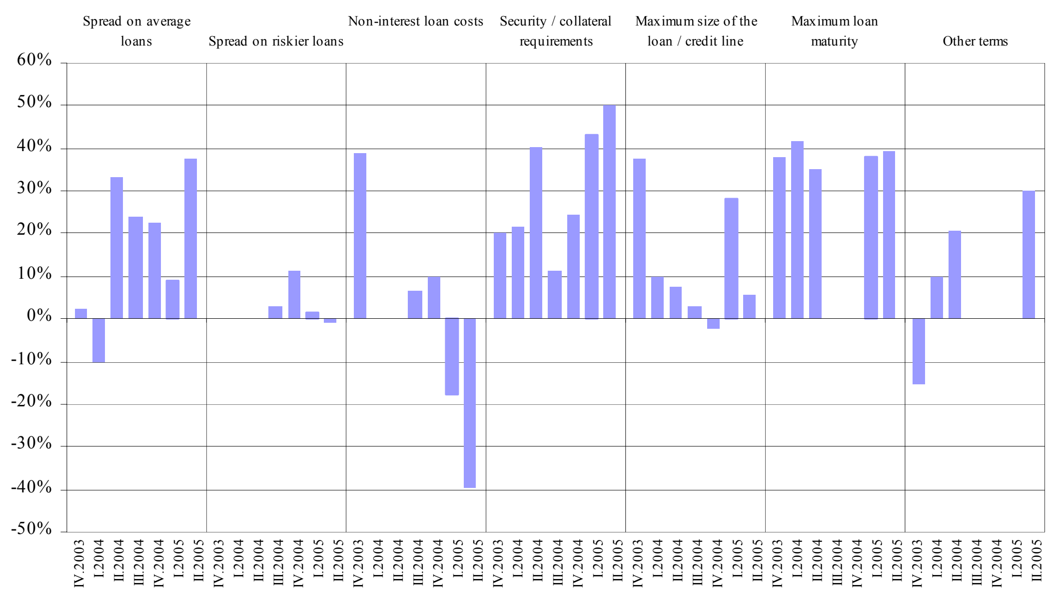


Figure 9

Terms on consumer loans

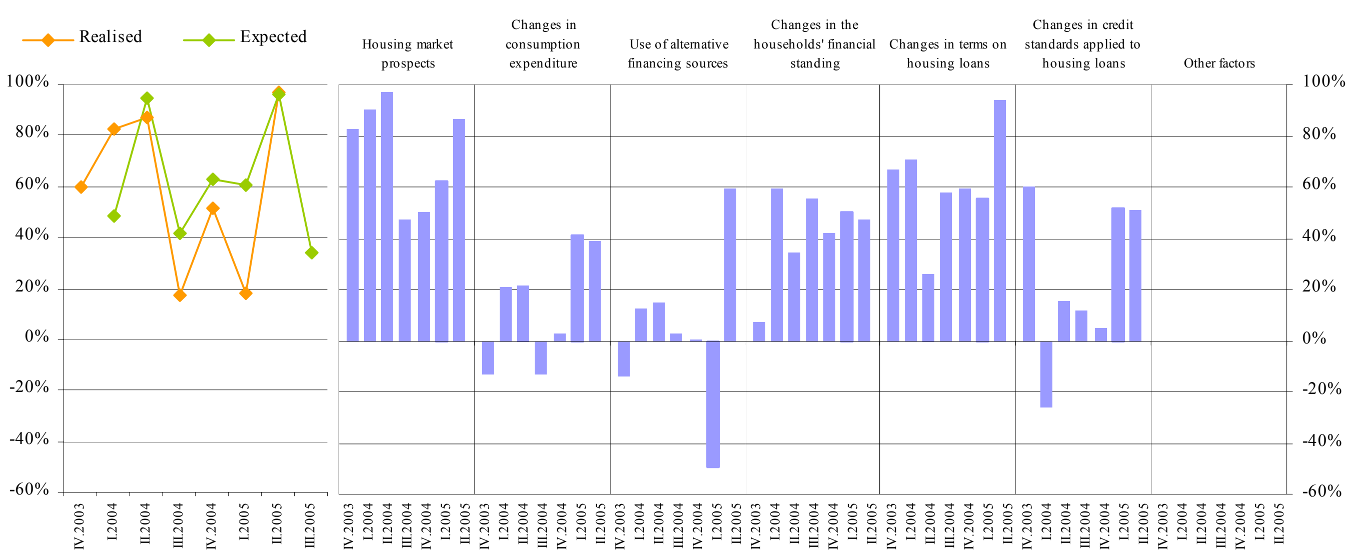


In the second quarter of 2005 the banks observed a very strong increase in the demand for housing loans. Almost all the banks declared an increase in demand, and as much as 71.4% of asset-weighted banks reported the considerable increase in demand. Such a strong increase in demand has not been noted since the survey had been first conducted, neither in the period preceding Poland's accession to the EU. At that time, the demand was driven by the expectations of an increase in the VAT rate on building materials. The banks anticipate a significantly weaker increase in the demand for housing loans in the third quarter of 2005 (cf. Figure 10).

The factors most often indicated as the reasons for the growth in the demand for housing loans included eased terms and conditions of housing loans and the forecast developments on the housing market. Other factors influencing the growth in demand reported by the banks included a decrease in the use of alternative sources of financing, easing the credit standards for housing loans and an improvement in the economic standing of households (cf. Figure 10). Similarly to the case of corporate loans, the easing of lending policy by the banks had an influence on the increase in demand for housing loans.

Figure 10

Demand for housing loans and factors influencing its change

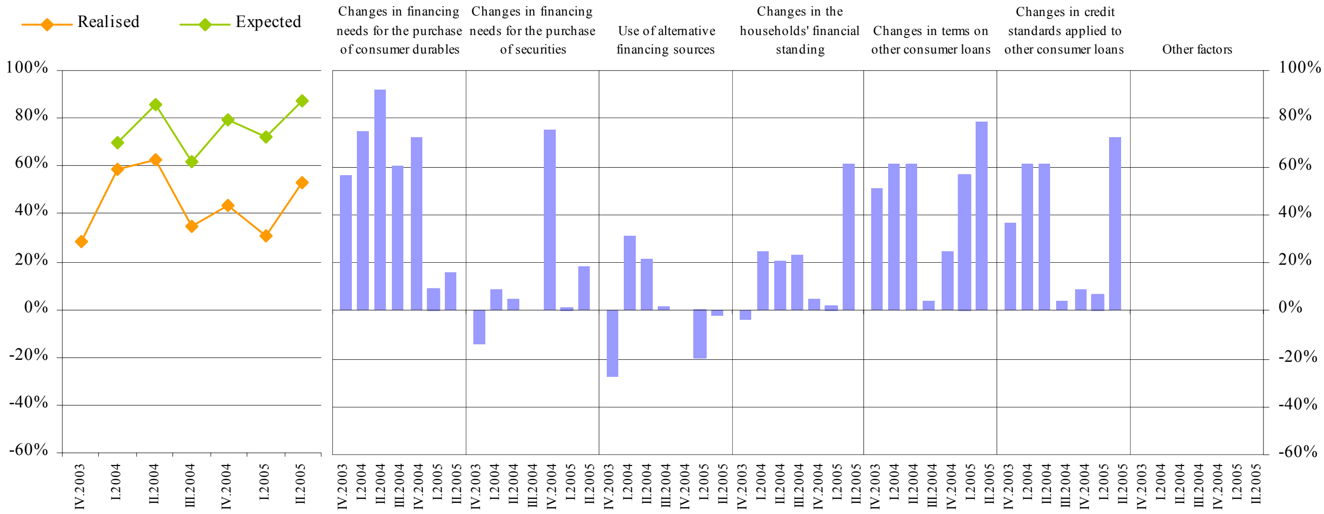


In the second quarter of 2005, the banks also observed an increase in demand for consumer loans. Although this demand was smaller than in the case of housing loans, the increase in demand recorded by the banks was the strongest since the second quarter of 2004. A further increase in the demand is expected in the third quarter of 2005 (cf. Figure 11). According to the banks, the increase in the demand for consumer loans should be larger than for housing loans.

The eased loan terms and conditions have been deemed the main reason for the growth in demand for consumer loans by the banks. An improvement in the economic standing of households was also reported by the banks, among other factors that drove the increase in demand for consumer loans (cf. Figure 11). In the second quarter of 2005, the impact of the banks' eased lending policy on the increase in demand was stronger in the housing loans segment than in other segments of the market.

Figure 11

Demand for consumer loans and factors influencing its change



Annex 1

Methodology

The results of surveys are presented in the form of structures, i.e. the percentages of banks, which chose a given option in response to particular questions. Banks' responses are weighted with the share of the given bank in the market segment to which a given question relates. Weighing of responses is a solution frequently applied in preparation of results of qualitative surveys.[1]

The importance of particular banks in a given market segment is represented by the share of loans outstanding of a given bank in the loan portfolio of all 24 banks responded to the survey, broken down by particular types of loans. The following table presents the market segment to which particular questions refer, and the type of loans outstanding which was used to calculate the shares of particular banks in a given market segment.

Table 1

Market segment and the respective type of loans taken into consideration in calculation of the weights

Questions no.	Market segment	Type of loans
1, 4, 6, 7	Short-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity of up to one year, together with the outstanding on the current account
	Long-term corporate loans	Loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders with the basic term to maturity above 1 year
2, 3, 5	Total corporate loans	Total amount of loans outstanding from state-owned enterprises and companies, private enterprises and companies as well as cooperatives and sole traders
8, 9, 10, 13, 14, 16, 17	Housing loans to households	Housing loans to persons
8, 11, 12, 13, 15, 16, 17	Consumer and other loans to households	Total loans outstanding from persons less housing loans to persons

Note: All types of claims relate to residents only. In the case of corporates the distribution between large enterprises and small and medium-sized enterprises was not retained, due to a lack of relevant data in banking statistics.

Source: NBP.

Thus a weight, corresponding to a given bank's share in a given market segment is assigned to particular responses. At the calculations of weights the average amount of claims of a given type in April and May 2005, that is the period covered by the survey, was taken into account.[2] Where a bank marked "*Not applicable*" in the response options, a weight of 0 was assigned. Thus while calculating

[1] Cf.: M. Bieć *„Business survey: Methods, techniques, experience"*, Papers and Materials of the Research Institute for Economic Development*,* No. 48, Warsaw School of Economics, pp. 71-114.

[2] No data on claims loans of particular banks in June 2005 were available at the time of analysing the results of the survey, due to an about three-week delay in reporting.

the structures for particular questions, only banks being active in a particular market segment were taken into account.

Apart from structures, the so-called net percentage was calculated for each response, that is the difference between the percentages of responses showing opposing directions of changes. This magnitude indicates a general tendency in the specific market segment. The method of calculating the net percentage for particular questions is presented in the following Table 2.

Table 2

Method of calculating the net percentage

Questions no.	Definition of net percentage
1, 2, 8, 9, 11	The difference between the percentage of responses „Eased considerably" and „Eased somewhat" and the percentage of responses "Tightened considerably" and "Tightened somewhat". A negative index indicates a tendency of tightening the credit standards.
3, 10, 12	The difference between the percentage of responses "Contributed considerably to the easing of lending policies" and "Contributed somewhat to the easing of lending policies" and the percentage of responses "Contributed considerably to the tightening of lending policies" and "Contributed somewhat to the tightening of lending policies". A negative index indicates a given factor's greater contribution to the tightening than to the easing of lending policies.
4, 13	The difference between the percentage of responses „Increased considerably" and „ Increased somewhat" and the percentage of responses „Decreased considerably" and „Decreased somewhat". A positive index indicates an increase in demand.
5, 14, 15	The difference between the percentage of responses „Contributed considerably to higher demand" and „Contributed somewhat to higher demand" and the percentage of responses „Contributed considerably to lower demand" and „Contributed somewhat to lower demand". A positive index means that a given factor contributed to an increase in demand, and a negative one – to a decrease in demand.
6, 16	The difference between the percentage of responses „Ease considerably" and „Ease somewhat" and the percentage of responses „Tighten considerably" and „Tighten somewhat". A positive index indicates the expected easing of the lending policies.
7, 17	The difference between the percentage of responses „Increase considerably" and „Increase somewhat" and the percentage of responses „Decrease considerably" and „Decrease somewhat". A positive index indicates the expected increase in demand.

Source: NBP.